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Howard County, Maryland; General Obligation

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Credit Profile		
US\$107.5 mil cons pub imp bnds ser 2008A due 02/15/2028		
Long Term Rating	AAA/Stable	New
US\$4.095 mil metro dist bnds ser 2008A due 02/15/2038		
Long Term Rating	AAA/Stable	New
Howard Cnty		
Long Term Rating	AAA/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AAA' rating to Howard County, Md.'s series 2008A consolidated public improvement bonds and series 2008A metropolitan district bonds.

The 'AAA' rating reflects the county's:

- Vibrant and diverse local economy, with proximity to the City of Baltimore, Md. and Washington D.C. MSAs;
- A large and diverse property tax base that continues to exhibit ongoing healthy growth;
- High wealth and income levels;
- Improved financial performance and position, following a gradual reduction in general fund reserves over fiscals 2001-2003; and
- A low and manageable debt burden coupled with a substantial, but well-managed capital improvement program (CIP).

Howard County's full faith and credit GO pledge secures the public improvement bonds. The county will use the bond proceeds to repay a portion of outstanding county notes. The metropolitan district bonds are secured by special front foot assessments on all property within the district, special annual ad valorem taxes levied upon assessable property within the district, and water and sewer service charges and connection fees. In addition, the metropolitan district bonds are further secured by the county's full faith and credit GO pledge. Bond proceeds will be used to fund water and sewer projects.

Howard County (population, 276,000) encompasses 251 square miles between Baltimore and Washington D.C. Residents benefit from significant employment opportunities within the county as well as throughout the Washington-Baltimore region. The deep and diverse local and regional economies contribute to high wealth levels and low unemployment. Median household effective buying income is at 134% of the state and 161% of the U.S. levels. Unemployment has historically been well below the state and national levels and was below 3.0% for 2007. The county's tax base is also large, estimated at \$41.8 billion for fiscal 2008, which is an increase of 15% over the previous year.

The county's tax base has increased a sizeable 71% since 2004. The strong growth in the tax base has been fueled by a revaluation in which one third of the county is assessed each year, as well as from new construction and increasing property values. Property taxes account for about 46% of general fund revenues and property tax collections have historically been strong, near 100%. The tax base is also diverse, with the 10 leading taxpayers

accounting for only 2.8% of assessed valuation. Despite a slight slowdown in construction as well as an increase in the number of days houses are on the market, housing values as of October 2007 were up 10% from October 2006.

The county's financial performance and position have improved over the past four consecutive fiscal years, following a gradual reduction of reserves over fiscals 2001-2003. The county closed fiscal 2007 in positive general fund operations with a nearly \$6 million surplus after net transfers out of \$22.3 million. The unreserved portion of the fund balance remained stable, totaling approximately \$67.3 million, or 9.4% of expenditures. This is up from \$39.7 million, or 6.8% of expenditures for fiscal 2004. Management expects fiscal 2008 to close with an \$11.7 million surplus.

The county's policy for stabilization fund reserves is to maintain at least 7% of the previous year's audited expenditures. For fiscal 2007, the stabilization fund totaled \$41.8 million and was equal to 6% of expenditures.

The county's debt burden remains low and manageable. Excluding metropolitan district debt and other self-supporting debt, overall net debt per capita totals about \$2,194 and 1.4% of market value. The county's debt burden is expected to remain low and manageable despite the county's large 2009-2013 CIP at \$1.2 billion. When including fiscal 2008 and previous authorized projects, the plan increases to a significant \$2.8 billion.

Outlook

The stable outlook reflects the county's proximity to and participation in the vibrant metropolitan areas of Washington D.C. and the city of Baltimore, which contribute to the county's above-average wealth levels and historically low unemployment rates. The outlook also reflects Standard & Poor's expectation that reserve levels will remain sound and debt burden will remain manageable in light of the county's large CIP.

Finances: Improving Reserve Levels

The county's financial performance and position have improved over the past four consecutive fiscal years, following a gradual reduction of reserves over fiscals 2001-2003. For fiscal 2006, the general fund posted a large surplus of \$36.9 million. With this surplus, the ending unreserved general fund balance was \$65.7 million or 10.1% of expenditures, including the county's budget stabilization account. The county also closed out fiscal 2007 in positive general fund operations with a nearly \$6 million surplus after net transfers out of \$22.3 million. The unreserved portion of the fund balance remained stable, totaling approximately \$67.3 million, or 9.4% of expenditures. This is up from \$39.7 million, or 6.8% of expenditures for fiscal 2004. Moreover, the large surplus in fiscal 2006 as well as in fiscal 2007 was again due to certain revenues (income and recordation taxes) coming in well over budget while certain expenditures came in under budget.

For fiscal 2008, management indicates that some of the county's key revenue sources (property taxes and income taxes) are tracking well-above budget, which basically offsets the declines they are experiencing in other tax receipts (primarily recordation tax and interest income). On the expenditure side, no major variations are reported. As such, the county expects to close out the fiscal year in another surplus.

The county's policy for stabilization fund reserves is to maintain at least 7% of the previous year's audited expenditures. For fiscal 2006, the stabilization fund (which is part of the general fund) totaled \$38.4 million, and was equal to 5.8% of expenditures. For fiscal 2007, the stabilization fund totaled \$41.8 million and was equal to

6% of expenditures.

Financial Management Assessment: 'Strong'

Standard & Poor's considers Howard County's management practices "strong" under its Financial Management Assessment, indicating that practices are strong, well embedded, and likely sustainable. The county has a long-standing record of being fiscally conservative, with good adherence to management policies and practices.

When preparing budgets, the county utilizes techniques such as historical trend analysis and base budgeting for both revenues and expenditures. In addition, administration closely monitors trends in the surrounding areas.

Amendments to the budget are seldom made after the budget has been adopted, except for major items such as grants. The county also uses multiyear financial planning and projects out for five years for both operating and capital on both revenues and expenditures.

The county's CIP is a five-year rolling plan, with all revenues identified and linked to the budget. The county follows the state's investment law. Financial officers report to the board on a monthly basis in regards to actual investment and progress. The county maintains debt-issuance policies that are measured by various sectors including debt service to operating revenue, to market value, per capita, or personal income. Furthermore, management's law for the revenue stabilization fund is to maintain at least 7% of the previous year's audited expenditures.

Debt and Future Capital Needs: Manageable

The county's debt burden remains manageable. Excluding metropolitan district debt and other self-supporting debt, overall net debt per capita totals just about \$2,194 and 1.4% of market value. Carrying charges remain moderate at 10% of general fund expenditures in fiscal 2007. Amortization on outstanding debt has historically been faster than average, with 63% of public improvement debt retired within 10 years and 100% by 2023. Amortization on metropolitan district debt is slower, with 57% of principal retired in 10 years, 91% in 20 years, and 100% by 2038. These amortization levels include these most recent issues. The county has designated \$15 million from the 2007 surplus to reduce their other postretirement employee benefits liability with plans to create a trust by year-end.

The county's debt burden is expected to remain manageable. However, the county's 2009-2013 CIP is large, at \$1.2 billion. When including fiscal 2008 and previous authorized projects, the plan increases to a significant \$2.8 billion. Approximately half of this plan is projected to be funded by future debt. The county currently expects to issue between \$90 million and \$100 million of public improvement bonds and \$10 million to \$20 million of metropolitan district bonds annually.

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